

# Liberty Coin Service

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Diane Piret, Legislative Affairs Director  
Industry Council for Tangible Assets  
PO Box 1365  
Severna Park, MD 21146

Dear Ms Piret:

At your request, I have tried to quantify the impact of Michigan's sales and use tax exemption on the retail sale of precious metals bullion and rare coins that took effect on July 7, 1999 in terms of current Michigan Treasury tax collections.

I am a coin dealer who formerly was in public practice as a CPA. When this exemption was under consideration by the Michigan legislature, neither the Michigan Department of Treasury nor the legislative fiscal agencies were able to quantify the amount of tax collections attributable to the retail sale of precious metals bullion and rare coins because dealers in such items typically sell a high volume of other goods. Through the use of industry surveys, Dun & Bradstreet data, and reference to my own company's tax collections, I was able to calculate the approximate amount of sales tax collections that would have been lost if this exemption were enacted. After reviewing my methodology, the Michigan Treasury and analysts for both the House and Senate fiscal agencies accepted my research and reported tax implications in line with my calculation.

I have used this same information to estimate the change from 1999 to 2011 for Michigan tax collections

The following information is conservatively figured so that any variance would result in higher net Treasury collections.

**Since the Michigan sales and use tax exemption took effect on July 7, 1999:**

**Increase in number of coin businesses in Michigan: 150**

**Increase in number of jobs in Michigan: 600**

**Net Increase in annual Michigan Treasury tax collections: \$1,735,250 or more**

Here is the breakdown of the components making up these numbers, followed by an explanation of the methodology used to derive this information.

<i>Category</i>	<i>1999</i>	<i>2011</i>
<b>Number of coin dealers (note: all analyses exclude internet only "dealers") (See addendum 2.2)</b>	210	360
<b>Number of employees (See addendum 2.3)</b>	450	1,050
<b>Annual wholesale and retail sales by coin dealers</b>	\$54 million	\$370 million

(See addendum 2.4)

**Michigan tax impact from enacting exemption**

**Net annual change  
from 1999**

1. Forsaken sales taxes on rare coins and precious metals bullion sales (See addendum 2.1)	(\$500,000)
2. Increased sales taxes from greater sales of merchandise sold by coin dealers that is not exempt from sales tax (See addendum 2.5)	\$711,000
3. Increased sales taxes from increased hospitality industry revenues from increase in coin shows in Michigan (See addendum 2.6)	\$300,000
4. Additional sales taxes from increased coin industry employment (See addendum 2.7)	\$415,800
<b>Total Increase In Sales Tax Collections</b>	<b>\$926,800</b>
5. Increased Single Business/Michigan Business tax collections from coin industry (See addendum 2.8)	\$221,200
6. Increased Single Business/Michigan Business tax collections from additional volume by financial institutions, hotels, restaurants, etc. (See addendum 2.9)	\$0+
<b>Total Increase in Single Business/Michigan Business Tax Collections</b>	<b>\$221,200+</b>
7. Increased individual income taxes from increased coin industry employment (See addendum 2.10)	\$587,250
8. Increased income taxes from increased employment by financial institutions, hotels, restaurants, etc.	\$0+
<b>Total Increase In Individual Income Tax Collections</b>	<b>\$587,250+</b>
<b>Net Increased Annual Total Tax Collections</b>	<b>\$1,735,250+</b>

As you can see, on a conservative basis Michigan sales tax collections have increased because of this exemption! Other Michigan Treasury tax collections have also increased. These figures do not include figures for increases in local income tax and property tax collections.

This analysis is derived from actual data, which generally matches what has occurred in the other 28 states that have enacted similar exemptions or have no sales tax at all.

The documentation for expected increased sales and other replacement taxes was compelling enough that even the Michigan Education Association did not oppose enactment of this sales tax exemption in 1999, which was significant because 72% of all sales and use taxes collected are dedicated to the state Education budget!

Here is a quick summary of how different “interests” benefited by the enactment of the precious metals bullion and rare coin sales and use tax exemption:

- Michigan’s economy--made Michigan competitive with Illinois, California, New York, Texas, Florida, Pennsylvania, Missouri, and over 20 other states; Michigan’s economy was stimulated.

- Michigan coin dealers--there have been completely new businesses started and a number of existing companies have added to the product lines by becoming coin dealers. Sales by Michigan dealers have soared and employment has increased.
- Michigan job seekers--increased opportunities with the addition of at least 600 new jobs so far and the trend appears likely to continue in the future.
- Public education--a net increase in formula funding because of the higher sales tax collections.
- Overall Michigan Treasury collections--a net increase of far more than \$1 million annually.
- The average Michigan investor and collector--they are no longer be penalized for being Michigan residents and for wanting to invest their money with Michigan businesses. They are no longer forced to transact their business with non-Michigan businesses and store their merchandise out of state to avoid Michigan sales tax.
- Affluent Michigan investors and collectors—they have not derived much economic benefit from the exemption as they already transacted their business in tax-exempt states with relative ease. However, they now enjoy the convenience of dealing with companies in Michigan.
- Michigan hotels, restaurants, airlines, ground transportation services, and the like--increased volume from out-of-state dealers and visitors attending coin shows and more Michigan coin dealers taking booths at Michigan coin shows rather than setting up booths at states with sales tax exemptions.
- Michigan banks, credit unions, and other financial institutions--increased volume from providing precious metals IRAs to Michigan investors and more safe deposit box rentals.
- Other Michigan Businesses—since 1999, our company has quintupled the amount we spend on advertising in Michigan as well as increasing our purchases of machinery and furniture and supplies from Michigan businesses. The analysis does not include any benefit to the Michigan Treasury caused by this increased volume by other Michigan businesses.

Thank you for your request. The current rare coins and precious metals sales and use tax exemption represents a win-win-win situation for Michigan's economy--businesses, employees, investors and collectors, and the State Treasury.

Sincerely,



Patrick A. Heller, CPA  
President  
Liberty Coin Service

**Addendum #1 Sources of data for generating the analyses in the table includes:**

1. Dun and Bradstreet reports.
2. Published research from the Michigan Department of Treasury.
3. Industry Council for Tangible Assets (ICTA) surveys on the long-term effects on coin industry sales tax collections.
4. Florida ICTA (with the assistance of the Orange County Convention and Visitors Bureau) March 1997 survey of job losses and convention closings in Florida after that state eliminated its sales tax exemption on rare coins and precious metals bullion in 1991.
5. Detailed analysis of Liberty Coin Service's sales and employment activities. According to Dun and Bradstreet, my company accounted for approximately 15% of sales of the Michigan industry in 1999 and about 10% in 2011.

**Addendum #2 Methodology for deriving the numbers in the table:**

1. Sales tax collections on rare coins and precious metals bullion—derived from a 1996 survey of Michigan coin dealers and other surveys in Ohio and Kentucky. Extrapolations from the analyses in the other two states fall right in line. As this company is highly concentrated on selling rare coins and precious metals bullion, instead

of the industry norm of only 50% of total sales coming from rare coins and precious metals bullion, this company formerly accounted for 20-25% of all sales taxes collected on such sales in Michigan (this company collected just under \$47,500 in sales tax on all sales in 1997). Note: most precious metals bullion and rare coin sales are conducted on a wholesale basis, which would were never subject to sales tax and would remain exempt even if the exemption were revoked. For the 2012 fiscal year, the Michigan Treasury reported that this sales tax exemption resulted in lost sales tax collections of \$5,220,000 (see *Executive Budget Appendix on Tax Credits, Deductions, and Exemptions Fiscal Year 2012* available at

[http://www.michigan.gov/documents/treasury/ExecBudgAppenTaxCreditsDedExempts\\_FY\\_2012\\_366688\\_7.pdf](http://www.michigan.gov/documents/treasury/ExecBudgAppenTaxCreditsDedExempts_FY_2012_366688_7.pdf) on page 15). This analysis was far more than the \$400,000 amount that the Michigan Treasury calculated for fiscal 2009. I have previously sent you my analysis of calendar year 2011 forsaken sales tax collections where I did two calculations using empirical data showing that lost sales and use tax collections were in the range of \$300,000 to \$500,000. To be conservative, I have used the higher figure in the analysis.

2. Increased number of coin dealers in Michigan—during the effort resulting in the original exemption, my company aggressively sought to identify all Michigan dealers. We had a list of 210 in mid-1999. This list has not been kept up aggressively, but has since grown to 360. We are aware that different Yellow Pages listings have coin dealers who are not on our list, but we have not gone to the effort to track them all down. Of the new coin dealers, it seems that approximately half are completely new companies and the other half are pre-existing companies that expanded into rare coins and precious metals bullion.
3. Increased employment in the coin industry—my company has grown from 6 to 24 employees and contractors since the exemption took effect. Another dealer near Kalamazoo has grown from 6 to 16 employees. Several smaller dealers have added staff. We calculated the employment increase as follows: increased employment at existing coin dealers at 1.5 full-time equivalent (FTE) jobs per business (210 x 1.5= 315), 1.5 FTE jobs from existing companies expanding into coins and bullion (75 x 1.5 = 113), 3.0 FTE jobs from completely new companies (75 x 3.0 = 225). This totals 653 new employees, but it is rounded down to 600 to be conservative. Anecdotally, I suspect there are more than 800 new jobs in Michigan, but have used the lower number to be extra conservative.
4. Increased coin industry sales—my company's sales have grown 918% since 1997, the last year of normal operations (i.e. not affected by Y2K demand). Using only a 300% figure for existing businesses, coupled with a greater number of businesses, results in approximately a 585% increase in total industry sales. *The nature of my company's sales has also changed. In the late 1990s, our Michigan retail sales only accounted for 7% of total company volume. Last year, our Michigan retail sales made up over 33% of total volume! While our Out of State Sales increased by 706% from 1997 to 2011, our Michigan Retail Sales increased 2,589%, and our Michigan wholesale sales increased 528%. While the coin industry in general has prospered in the past 12 years, it is evident that the exemption has resulted in much stronger growth in Michigan sales than for sales out of state.*
5. Increased sales taxes from increased sales of merchandise not exempted—surveys in Ohio and Kentucky both found that approximately 50% of sales by coin dealerships are of merchandise not affected by the coin and bullion tax exemptions. The main forms of taxable merchandise sold by coin dealers are jewelry, antiques, sports cards, hobby supplies, and other collectibles. In the March 1998 ICTA survey of Ohio coin dealers, it was found that Ohio coin dealers collected 80% more sales tax in 1997 than they did in 1989 (the year that Ohio adopted its coin and bullion exemption). My own company's experience is that Michigan retail sales of exempt merchandise rose about 2,600% from 1997 to 2011 and Michigan retail sales of merchandise still subject to Michigan sales tax rose more than 150%. To be conservative, the increased sales tax collections assume that only 15% of the industry sales increase of \$316 million since 1999 has been for merchandise that is subject to sales tax. To be conservative, we then cut that figure by 75% to account for wholesale activity (\$316 million x 15% = \$47.4 million x 25% = \$11.85 million x 6% = \$711,000).
6. Increased sales taxes from hotels, restaurants, etc. from increased coin show attendance—A survey by Florida ICTA and the Orange County (Florida) Convention and Visitors Bureau, conservatively estimated that the state of Florida had lost \$60 million in annual taxable sales by the hospitality industry and other merchants after the Florida exemption was revoked in 1991. Michigan also was losing national and regional coin shows as organizations adopted policies of awarding future shows only in states with rare coins and precious metals bullion tax exemptions. Also, Michigan coin dealers were traveling out of state to take booths at coin shows

in exempt states. Since Michigan adopted its exemption in 1999 it has hosted two Central States Numismatic Society (CSNS) Fall Conventions. These conventions easily bring a \$5 million in taxable sales by the hospitality and other industries by themselves (\$300,000 in sales taxes). When Detroit again hosts the annual American Numismatic Association (ANA) convention, that would contribute \$12-15 million to the local economy. Another major benefit is that more Michigan dealers are attending coin shows in-state and more non-Michigan dealers and collectors are coming to shows in Michigan than before—plus there are more coin shows in Michigan! These total annual tax collections have been conservatively figured.

7. Additional sales taxes from increased industry employment—Michigan Department of Treasury research found that taxable sales in Michigan equal 38.5% of payroll increases. Using a conservative jobs increase and a conservative compensation level yields a conservative increase in sales tax collections (600 jobs x \$30,000 x 38.5% x 6% = \$415,800).
8. Increased Single Business and Michigan Business Tax collections from the coin industry—this company's effective Single Business Tax rate used to be roughly 0.1% to 0.12% of sales. Under the Michigan Business Tax, the effective rate is about 0.0935% of sales. To be conservative, we have used the sales increase of \$316 million multiplied by only 0.07% (\$316 million x .0007 = \$221,200).
9. Increased Single Business Tax, Michigan Business Tax, and Individual Income Tax collections from other industries—with the hospitality and other industries enjoying higher sales volume because of increase Michigan coin show attendance, both of these tax collections would increase. However, to be extra conservative in this analysis, I have assumed no tax benefits from these categories.
10. Increased Individual Income Taxes from the coin industry—the payroll increase is figured conservatively at 600 jobs times \$30,000 times 4.35% effective tax rate, then decreasing that by 25% (600 x \$30,000 x .0435 x .75 = \$587,250).

### **Addendum #3 Indicators of the negative consequences of the loss of the rare coin and precious metals bullion sales tax exemption**

On May 1, 1994, the Michigan sales tax rate increased from 4% to 6%. I documented that total Michigan Treasury sales and use tax collections from the coin industry decreased even though the tax rate increased by 50%. Several businesses closed or moved to exempt states, attendance at coin shows declined, and Michigan jobs were lost.

As mentioned above, when Florida temporarily revoked its rare coin and precious metals bullion sales and use tax exemption, sales and other tax collections by coin dealers and the hospitality industry plummeted. The losses were so large that Florida reinstated the exemption in 1999.

Ohio revoked its rare coin and precious metals bullion sales and use tax exemption on July 1, 2005. The weekly newspaper *Coin World* documented that within six months at least 100 coin dealerships in Ohio had either closed or reduced staffing levels and that major coin shows had been cancelled.